

Let's talk wealth management



As founder of Wealthflow LLP, Duncan Glassey's advice features regularly in finance journals and national press. If you would like to talk more about specialist wealth management and financial life planning you can call Duncan direct on : **0845 468 0037**

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Alternative outlook may not be best.

A RECENT magazine cover showed a dejected businessman sprawled on a pavement, an open briefcase beside him and a thought bubble over his head proclaiming that "shares suck". The premise of the article was there are better places to invest than in the stock market at the moment and that "smart" investors, in the spirit of diversification, should be looking at alternative asset classes.

The magazine promoted the attractions of managed fund futures, commodity derivatives, foreign exchange speculation, stamp and wine collecting and ... gambling at the racetrack.

Now while some get lucky betting on currencies, commodities or horses, this is speculation, not investment. Commodities, for example, are being promoted as the asset class du jour, a chance to ride the "commodity super cycle" driven by the rapid emergence of China and India in the global economy. There is, however, little evidence to support commodities' reputation as a diversifier and inflation hedge.

Likewise, there is little argument among academics that currencies provide no future cash flows and do not generate underlying earnings.

Even Alan Greenspan, the former chairman of the US Federal Reserve, has described predicting currency movements as no better than a coin toss.

Among the other alternatives in vogue are managed futures. These create an opportunity to speculate on "trending" markets, those exhibiting signs of upward or downward momentum.

The trick is to pick the turning of the trend. Naturally, they all claim to have a reliable model for doing so, but if it is so easy to time the market, why isn't everyone doing it?

Collectables such as wine, antiques or stamps are often seen as attractive alternatives, but success here usually requires an encyclopaedic knowledge, passion and patience far beyond the capacity of most of us. Collectables are also extremely illiquid, generate no income, are expensive to trade and are subject to fickle fashion.

The last reason you should be considering a change is because the stock market has fallen sharply. Drifting off into exotic, illiquid and high-risk alternatives just risks compounding your losses and ensures you miss the rebound.



The rules of investment don't change in the bad times. Markets still work, risk and return are still related and diversification across risk factors that offer a reliable reward is still the best strategy. Stamp collecting and betting on the horses are fine, if that's your idea of fun. Just don't confuse it with investment.